Retirement and Investment Office
Budget 190
House Bill No. 1022

	FTE Positions	General Fund	Other Funds	Total
2009-11 legislative appropriation	17.00	$0	$3,705,650	$3,705,650
2007-09 legislative appropriation	17.00	0	3,371,136	3,371,136
2009-11 appropriation increase (decrease) to 2007-09 appropriation	0.00	$0	$334,514	$334,514

Item Description	Status/Result
Appropriation line item transfers - Section 2 of House Bill No. 1022 authorizes the Retirement and Investment Office to transfer funds from the contingencies line item to any other line item and provides that the agency notify the Office of Management and Budget of each transfer made.	The Retirement and Investment Office does not anticipate transferring any funds from the contingencies line item.
Supplemental retiree benefit payment - Senate Bill No. 2277 (2009) provides a one-time supplemental retiree benefit payment to Teachers' Fund for Retirement (TFFR) retirees and beneficiaries who retired before January 1, 2009. The supplemental payment is based on the formula of $20 per year of service plus $15 per year retired. The supplemental payment is not to exceed the greater of 10 percent of the member's annual annuity or $750. The board was to make the supplemental payment in December 2009.	The Retirement and Investment Office provided the supplemental payment to 6,159 retirees on December 15, 2009. The average payment was $715, and the total cost of the supplemental payment was $4.4 million from TFFR.
TFFR employer contributions - Sections 4, 5, 6, and 7 of House Bill No. 1022 provide for increasing effective July 1, 2010, employer retirement contributions to TFFR from 8.25 percent to 8.75 percent per year. The increase in employer retirement contributions is effective until the ratio of the actuarial value of assets to the actuarial accrued liability of TFFR increases to 90 percent based upon the actuarial value of assets and expires on the July 1 that follows the first valuation that shows a 90 percent funded ratio. The TFFR Board of Trustees shall notify the Legislative Management of the expiration date of the increase.	The Retirement and Investment Office is currently in the process of updating the pension computer system to implement the contribution increase on July 1, 2010. The legislative intent for the increased contribution rate was to provide funding for the one-time supplemental retiree benefit payment provided under Senate Bill No. 2277. As of July 1, 2009, the TFFR balance of $1,309.7 million was considered 70 percent funded using actuary valuations. Although the market has recovered some in recent months, the Retirement and Investment Office does not believe market improvement alone is enough to recover such severe investment losses. The agency is in the process of drafting bills that may change contribution rates or benefits or request additional revenues to improve the funded percentage.
Contingent appropriation - The Legislative Assembly appropriated $25,000 from TFFR for implementing provisions of 2009 Senate Bill No. 2277.	The Retirement and Investment Office is utilizing funding provided in its base budget for the costs being incurred for implementation of 2009 Senate Bill No. 2277, including retiree notifications and programming changes to the pension computer system.

Status of TFFR - Provided below is a status summary of TFFR:

Actuarial Value of Investments (Amounts Shown in Billions)		
	Fund Balance	**Actuarial Percentage Funded**
June 30, 2007	$1.75	79.2%
June 30, 2008	$1.91	81.9%
June 30, 2009	$1.90	77.7%

Market Value of Investments (Amounts Shown in Billions)		
	Fund Balance	**Annual Percentage Change in Market Value**
June 30, 2007	$2.02	20.0%
June 30, 2008	$1.83	(7.5%)
June 30, 2009	$1.29	(27.3%)
March 31, 2010, preliminary fund balance	$1.52	17.8%

A decline in the market value of fund investments caused actuarial funded levels to decrease from 81.9 percent as of June 2008 to 77.7 percent as of June 2009. In 2008 investments declined 7.5 percent from prior year market values, and in 2009 investments declined by 27.3 percent.

The Retirement and Investment Office through actuarial analysis has determined that relying only on potential market value increases will not return the funded level of TFFR to the target of at least 90 percent. The Teachers' Fund for Retirement plans to introduce bills to the 2011 Legislative Assembly to improve funding levels, including increasing contribution rates, providing for a $75 million general fund appropriation, as well as changing eligibility and benefits.

Westridge Capital Management and WG Trading Investors status - In 2000 the State Investment Board entered an investment agreement with Westridge Capital Management and its affiliated broker/dealer WG Trading Investors. Westridge Capital Management--a registered investment adviser--completes transactions through WG Trading Investors--a registered investment broker/dealer. The National Futures Association suspended the trading capabilities of two individuals who are principals in both Westridge Capital Management and WG Trading Investors in March 2009. According to the National Futures Association action, the principals did not provide documents requested by the National Futures Association. The United States Commodity Futures Trading Commission and the United States Securities and Exchange Commission--regulatory agencies of the federal government--are investigating WG Trading Investors for alleged fraud. The State Investment Board effectively terminated its investment management relationship with Westridge Capital Management and its affiliated broker/dealer, WG Trading Investors, and demanded the return of all State Investment Board assets.

The total State Investment Board exposure to the alleged fraud by Westridge Capital Management and its affiliated broker/dealer, WG Trading Investors, was $161.3 million. The board recovered $24.3 million, but the remaining $137 million was placed in receivership. In May 2009 the $137 million in receivership was written down $55.8 million, or 40 percent, resulting in the $82.2 million awaiting recovery. The $55.8 million written off is considered an unrealized loss until a final settlement is reached. The agency anticipates recovery of assets in approximately two years. The State Investment Board and six coclaimants have retained the services of a forensic accountant who will evaluate a receiver's report and assist in formulating a distribution plan for any funds that may become available.